

Alaska Oil and Gas Association



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Kate Williams, Regulatory Affairs Representative

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Dennis McLerran
Regional Administrator
U.S. Environmental Protection Agency
Region 10
1200 6th Avenue, Suite 900, AWT-107
Seattle, WA 98101

Re: Draft Outer Continental Shelf Title V Clean Air Act Permits

Dear Regional Administrator:

The Alaska Oil and Gas Association (“AOGA”) appreciates this opportunity to submit comments on the draft minor New Source Review/Title V Outer Continental Shelf (“OCS”) air permits (“draft permits”) for Shell Offshore Inc. (“Shell”) for Shell’s oil and gas exploratory drilling program in the Beaufort Sea. AOGA is a private, nonprofit trade association whose member companies account for the majority of oil and gas exploration, development, production, transportation, refining, and marketing activities in Alaska.

For the following reasons, AOGA strongly urges the Environmental Protection Agency (“EPA”) to expeditiously approve and issue the draft permits. Shell has been in the process of obtaining OCS air permits for over five years. After public notice and comment and exhaustive environmental review, EPA issued final permits to Shell for operations in the Beaufort and Chukchi Seas in 2010, only to have the Environmental Appeals Board (“EAB”) remand the permits back to EPA for the second time at the eleventh hour. Because of continued review and EAB remands, Shell was forced to cancel its planned 2011 exploratory drilling program. The draft permits meet all National Ambient Air Quality Standards (“NAAQS”) and other environmental criteria; it is time for EPA to issue these permits so Shell may proceed with an exploratory drilling program in 2012.

The draft permits would authorize air emissions from the Kulluk drillship and an associated fleet of support ships, such as ice breakers, oil spill response vessels, and a supply ship (“Associated Fleet”), beginning in 2012. Prevention of Significant Deterioration (“PSD”) program air permits

are not necessary since Shell's permits will contain federally enforceable restrictions limiting the emission of air pollutants. Exploratory activities would be authorized during the open water season and limited to 120 days. This is a significant reduction in the total number of operating days compared to the previous air permits, which authorized 168.

Shell's operations in the Beaufort Sea would occur under the strictest, most environmentally sound requirements in the world. The primary generators on board the Kulluk will be equipped with emissions controls, including selective catalytic reduction ("SCR") and oxidation catalyst ("OxyCat"), to reduce nitrogen dioxide, carbon monoxide, volatile organic compounds, and particulate matter emissions. In addition, the Kulluk will use ultra low sulfur diesel ("ULSD") fuel to reduce the emission of sulfur dioxide. To further reduce emissions, the Associated Fleet will also use ULSD, be subject to operational restrictions, and, as appropriate, be equipped with control technology such as SCR and OxyCat.

We believe EPA's use of the Coupled Ocean Atmosphere Response Experiment Meteorological Modeling Algorithm and the Plume Volume Molar Ratio Method Nitrogen Dioxide Algorithm to predict the concentration of air pollutants emitting from Shell's operations and in the local communities is appropriate. Importantly, EPA has approved use of these models, albeit on a case-by-case basis.

As EPA has acknowledged, the models show that the concentration of air pollutants in the local communities would be "well below" the NAAQS. This is true even though the modeled concentrations also take into account background concentrations of air pollutants, which are wholly unrelated to Shell's operations, and the use of "conservative assumptions," such as all four proposed exploratory wells being drilled at the same location, which would not actually occur.

The fact that Shell's operations comply with the NAAQS alleviates any environmental justice concerns in the local communities as both EPA and the EAB have repeatedly stated that in the context of an environmental justice analysis compliance with the NAAQS is "emblematic" of achieving the requisite level of public health and environmental protection, with a built-in margin of safety. To reiterate the point once more, the concentration of air pollutants in the local communities would be "well below" the NAAQS, including emissions from Shell's operations and background concentration of air pollutants.

Both Shell and EPA have engaged in extensive community outreach on the North Slope with regard to air permitting for Shell's exploration activities. EPA held numerous information meetings in local communities on the previous permits as well as the draft permits for the Kulluk. In addition, the draft permits specifically require Shell to have a plan for communicating

with North Slope communities regarding when exploration activities are expected to begin and end at a drill site, the location of the drill site, and any restrictions on activities in the area of Shell's exploration operations. Both EPA and Shell have established a solid track record of communication with the communities that may be affected by Shell's operations. This communication will continue, and is in fact required under the permits, once the permits are issued.

Important to remember is that the draft permits do not provide Shell authorization to drill; they only authorize air pollutant emissions from the Kulluk and the Associated Fleet. Should EPA approve these permits, which AOGA strongly urges EPA to do, Shell must also obtain at least ten other federal permits and authorizations in order to proceed with an exploratory drilling program. This is not a project that is occurring without adequate oversight and necessary approvals. BOEMRE recently conditionally approved Shell's Exploration Plan for the Beaufort Sea, an important and positive step toward a successful exploratory drilling program in Alaska's OCS. AOGA urges EPA to follow suit and approve the draft permits for the Kulluk and in a time frame that will allow for a successful exploratory drilling season in 2012.

The importance of oil and gas development on Alaska's OCS cannot be overstated. This largely untapped area holds an estimated 27 billion barrels of oil and 132 trillion cubic feet of natural gas. By comparison, total production from the North Slope to date has been about 16 billion barrels of oil. Development of these resources is necessary for the continued operation of the Trans-Alaska Pipeline System ("TAPS"), which delivers 11% of total domestic oil production to refineries on the West Coast and has been identified as critical infrastructure for national security. TAPS is currently operating at one-third capacity, or approximately 600,000 barrels of oil per day compared to 2 million barrels of per day in 1988, and will face operational challenges without additional supply.

Furthermore, according to a recent study by Northern Economics and the University of Alaska, an annual average of 54,700 new jobs in Alaska and the rest of the U.S. would be created and sustained by OCS-related development for 50 years. This translates into \$63 billion in payroll to employees in Alaska and \$82 billion to employees in the Lower 48. Federal, state, and local governments would realize \$193 billion in revenues if oil price averages \$65 per barrel, and much more with higher prices. Clearly, development of Alaska's OCS resources is vital to the nation's energy security and would help turn the tide against the economic recession we are now facing.

The environmental justice analysis shows that Shell's exploration program will not have a disproportionately high or adverse human health or environmental effects on minority or low income populations on the North Slope. The models used by Shell have been approved by EPA

and the modeled compliance demonstrations are based by EPA's own admission on conservative modeling assumptions. Emissions limits authorized under the revised permits are greatly reduced in comparison to earlier versions of the air permits. Continued communication with the North Slope communities will continue by both EPA and Shell throughout Shell's operations. Shell has a long history of safe, responsible, and environmentally sound operations worldwide, and in Alaska specifically. AOGA urges EPA to approve and issue the draft permits so Shell is not forced to cancel yet another exploratory drilling season in Alaska.

If you have any questions on these comments, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Kate Williams". The signature is written in a cursive, flowing style.

KATE WILLIAMS
Regulatory Affairs Representative